Joint Legislative Economic Development and Global Engagement Oversight Committee

Strategy Workgroup Report Summary

NCGA House Commerce

March 8 2017

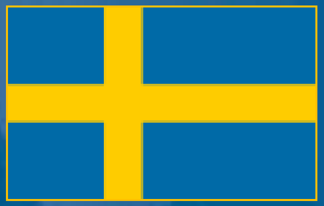
Brent Lane, Director

UNC Center for Competitive Economies

University of North Carolina at Chapel Hill
Kenan-Flagler Business School

NC's Economy is Big

- Population = 10+ million (9th)
- GDP = $511 Billion (10th)
- NC = 24nd largest national economy (Sweden/Belgium)
- Workforce of 5 million people
- 350,000+ businesses of many types



Big is hard to affect.

2nd qtr. 2016: USBEA, IMF

NC & Incentives

NC was a late, reluctant and careful player in the use of financial economic incentives

- Bill Lee Tax Credits
- Article 3J tax credits
- OneNC
- JDIG
- Exceptional projects

2009 Incentives Jt. NCGA Study Committee

- 20+ member joint legislative study committee
- 18 month, $300k multi-institutional research
- Portfolio investment return model evaluation of NC statutory tax credits and discretionary economic incentives
- Studied quarterly employment effects of 3,000 incentives from 1996 to 2006

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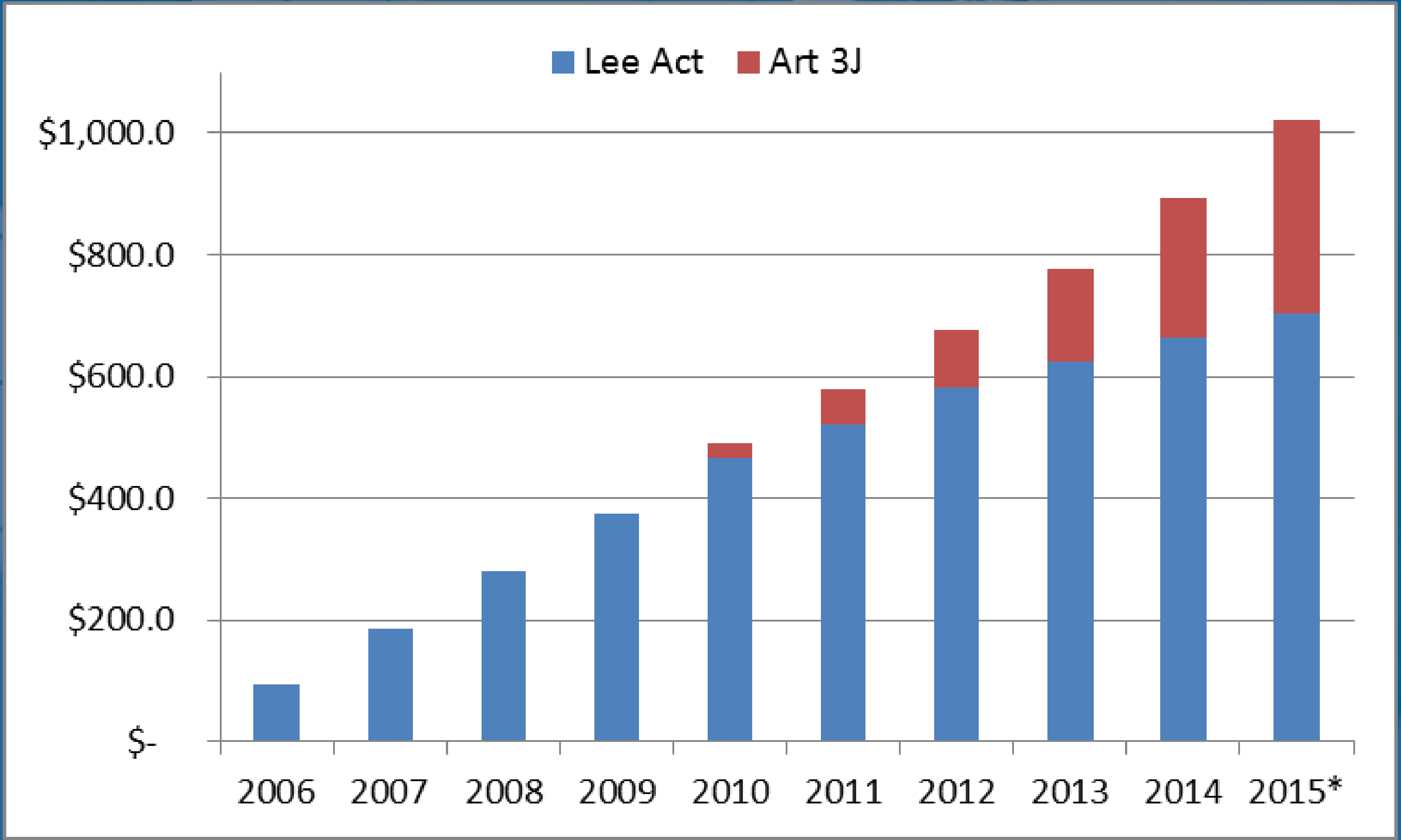
2009 Findings

- Tax credits’ outcomes were contrary to NC goals
- Tax reduction a better strategy
- Incentives had regional, but not NC impact
- Incentives mostly benefitted wealthy areas

2009 Incentives Study Committee Recommendations

- ☑ Eliminate most tax credits effective 2010
- ☑ Reduce corporate tax rate to competitive rate
- ☑ Address systemic economic policy factors
- ☑ Institute legislative oversight function (EDGE)
- ☐ Expand JDIG and One NC programs targeted to high impact firms in distressed counties

NCGA Eliminated $1B/yr. Credits to Reduce Tax Rates



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NCGA Systemic Remedies

Pivot from industry targeting to systemic economic and public policy reform

Goals

- Broad private sector employment and wage growth in response to market forces
- Gradual income improvement across NC

EDGE Strategy Workgroup

Purpose

EDGE workgroup to build on legislative deliberations of Tier "distressed counties" to identify long term economic goals and legislative actions for improved economies in those areas

Met in September, October, November, and December

EDGE Strategy Workgroup

NC House members	NC Senate members
Rep Susan Martin	Sen. Harry Brown
Rep John Bell	Sen. Tommy Tucker
Rep Ted Davis	Sen. Rick Gunn
Rep John Fraley	Sen. David Curtis
Rep Rena Turner	Sen. Bill Rabon

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Workgroup Tasks

- Reconsider economic incentive tier structure
- Identify and quantify state and local level economic goals
- Develop policies to align economic development efforts with NCGA priorities
- Recommend legislative actions or policy changes for implementation

Findings

1. NC's incentives began to aid distressed areas but most incentives go to wealthy areas
2. Reliance on economic development "success" is inadequate to scale of NC economy
3. Systemic economic policies needed to enhance statewide economic climate
4. Improved competitiveness lessens importance of off-setting economic incentives
5. Incentives most significant in distressed areas

Alignment Options

Make tier structure more effective in Tiers 1 and 2

1. Establish and oversee goals for T1&T2 outcomes
2. Reformulate JDIG evaluation to include goals for employment, income, tax base
3. Limit total JDIG awards to T3 counties (50%)
4. Reduce maximum amount of T3 JDIG awards
5. Limit EDP bonuses to projects located in T1&T2
6. Limit JDIG eligibility to resident, permanent workers

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Incentives and Tiers

- “Tier system” developed to prioritize use of incentives for struggling counties
- “Distress” based on unemployment, income, population growth and per capita property
- Tiers definition evolved since inception
- Little effect on distribution of incentives

Job Development Investment Grant (JDIG)

- Cash grants companies for locating or expanding a facility in the state
- Amount based on % personal income tax withholdings associated with the new jobs
- Grant funds are disbursed annually, for up to 12 years, to approved companies following the satisfaction of performance criteria set out in grant agreements

JDIG and Tiers

Tier system intended to direct JDIGs to less prosperous areas of the state:

- 40 most distressed counties (Tier 1), Tier 2 (next 40), Tier 3 (20 least distressed)

JDIG maximum amounts vary by Tier:

- Tier 1 - 100% of the grant to the company
- Tier 2 - 90% to company, 10% to Utility Account
- Tier 3 - 75% to company, 25% to Utility Account

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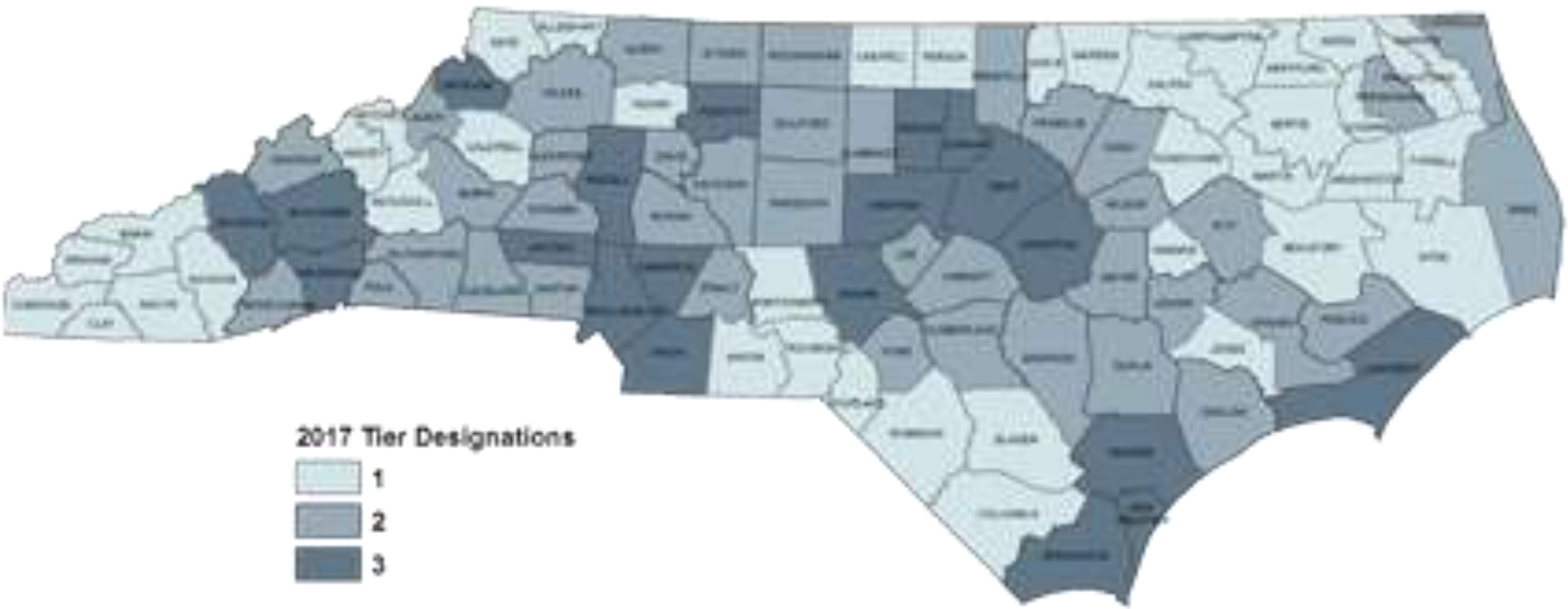
2017 Tiers



2015 JDIGS

Grantee Name	County	Tier	Number of Grant Years	1st Year of Eligibility	Withholding	Amount to Company	Amount to Utility Acct	Total Award Liability
Novo Nordisk Pharmaceutical Industries, Inc. III	Johnston	3	12	2019	75%	$15,861,750	$5,287,250	$21,149,000
Fidelity Global Brokerage Group, Inc. II	Durham, Wake	3	12	2016	48%	$15,522,750	$5,174,250	$20,697,000
Dimensional Fund Advisors LP	Mecklenburg	3	12	2016	75%	$10,310,250	$3,436,750	$13,747,000
Ashley Furniture Industries, Inc. II	Davie	2	12	2016	70%	$4,607,100	$511,900	$5,119,000
Royal Appliance Mfg. Co.	Mecklenburg	3	12	2016	38%	$3,753,000	$1,251,000	$5,004,000
BSH Home Appliances Corporation II	Craven	2	12	2016	50%	$4,096,800	$455,200	$4,552,000
DB Global Technology, Inc. III	Wake	3	12	2016	35%	$3,384,000	$1,128,000	$4,512,000
Herbalife International of America, Inc. II	Forsyth	3	12	2016	41%	$2,999,250	$999,500	$3,998,750
RBUS, Inc. II	Mecklenburg	3	12	2016	31%	$2,659,500	$886,500	$3,546,000
Premier Research International LLC	Durham	3	12	2016	36%	$2,580,000	$860,000	$3,440,000
Corning Optical Communications LLC	Mecklenburg	3	12	2016	45%	$2,352,000	$784,000	$3,136,000
Albemarle Corporation	Mecklenburg	3	12	2016	22%	$2,040,000	$680,000	$2,720,000
Interactive Purecloud, Inc.	Durham	3	12	2016	29%	$1,637,250	$545,750	$2,183,000
Metal Works Mfg. Co.	Cleveland	2	12	2015	75%	$1,325,150	$233,850	$1,559,000
Frontier Communications of the Carolinas LLC	Durham	3	12	2016	25%	$880,500	$293,500	$1,174,000
					Total	$74,009,300	$22,527,450	$96,536,750

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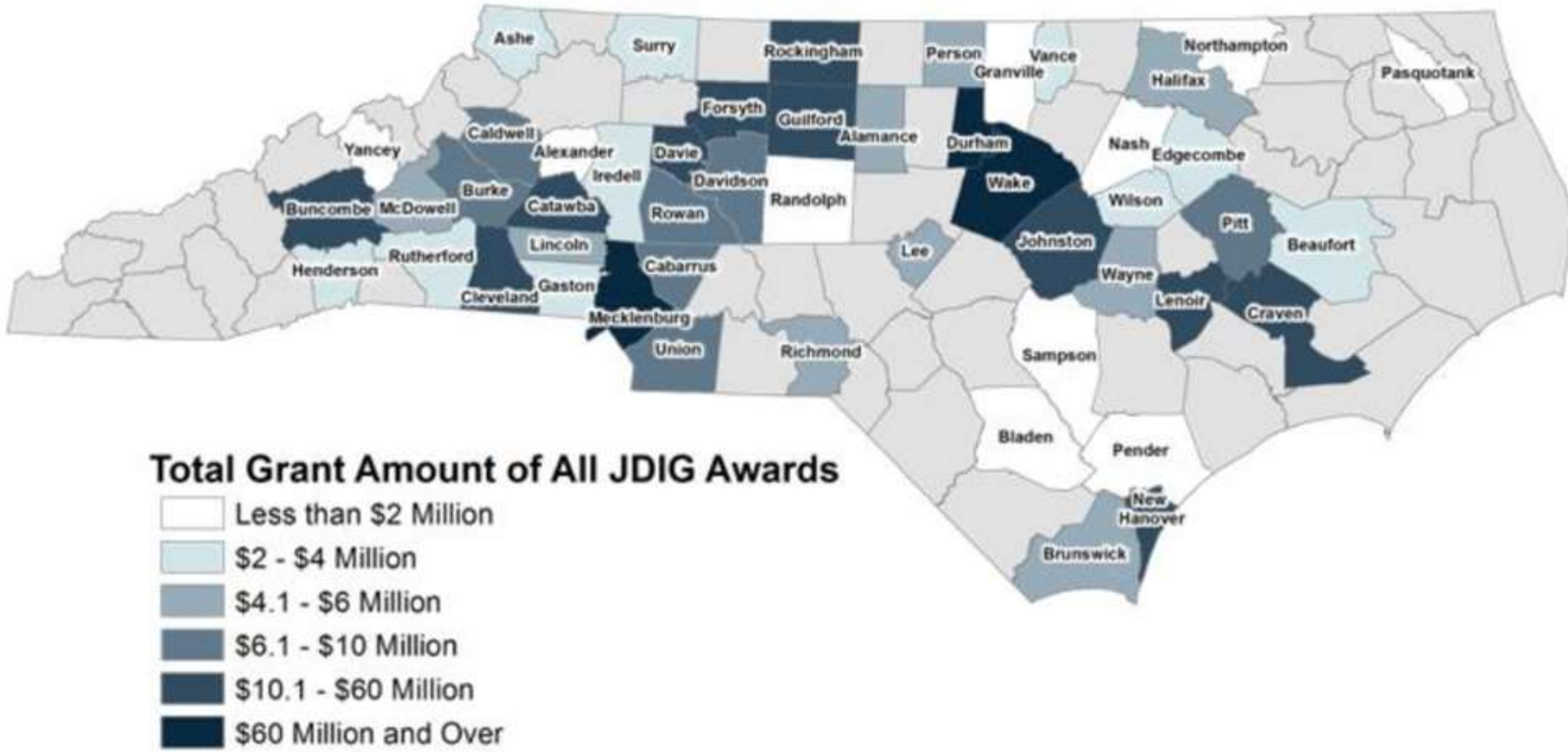
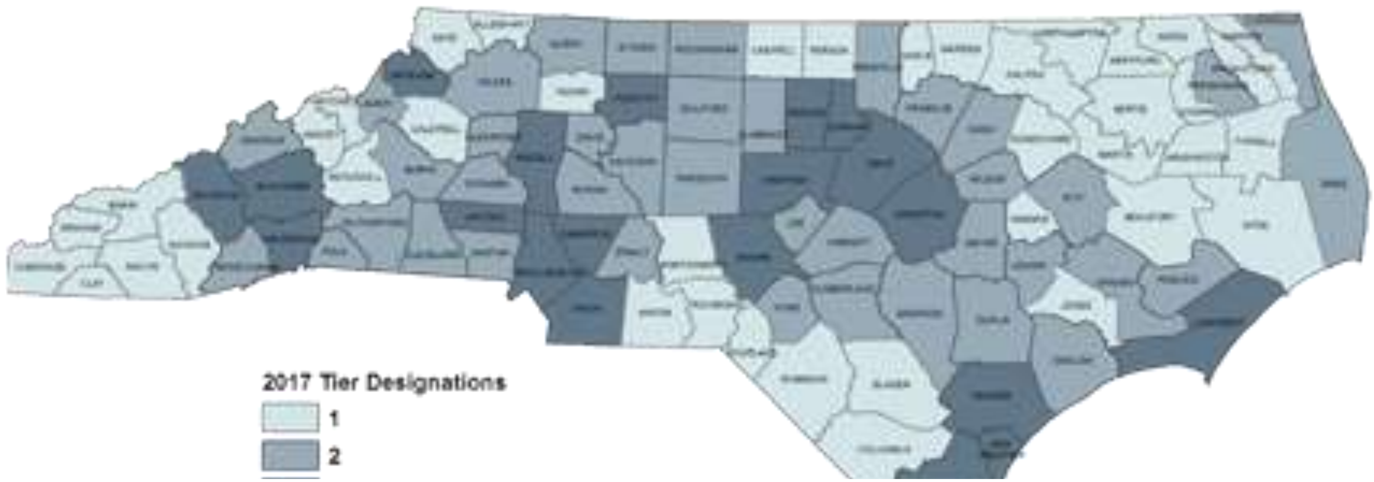
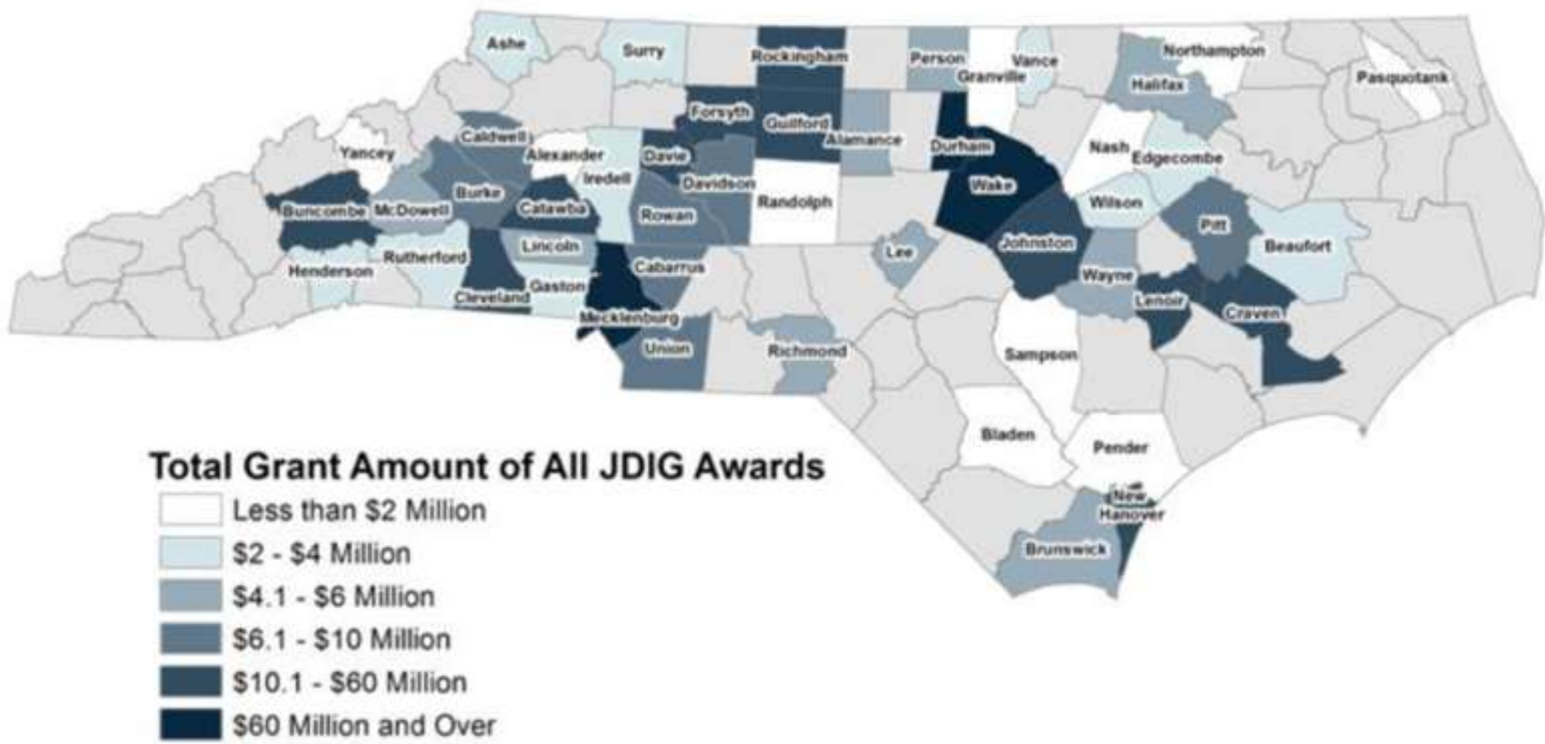
2003-15 JDIGS




2017 Tier Designations
1
2


Ashe
Surry
Rockingham
Person
Vance
Granville
Northampton
Pasquotank
Halifax
Forsyth
Guilford
Alamance
Durham
Nash
Edgecombe
Yancey
Caldwell
Alexander
Iredell
Davie
Davidson
Randolph
Wake
Burke
Buncombe
McDowell
Catawba
Rowan
Wilson
Pitt
Beaufort
Lee
Johnston
Henderson
Rutherford
Lincoln
Cabarrus
Wayne
Cleveland
Gaston
Lenoir
Craven
Mecklenburg
Union
Richmond
Sampson
Bladen
Pender
New Hanover
Brunswick
Total Grant Amount of All JDIG Awards
Less than $2 Million
$2 - $4 Million
$4.1 - $6 Million
$6.1 - $10 Million
$10.1 - $60 Million
$60 Million and Over

JDIG/OneNC

Limited success in serving distressed counties

- 15 JDIG awards in 2015 totaling $74 million but none in Tier1 distressed counties
- 56 OneNC awards in 2015 with 18 ($6.3M) to companies in Tier 1 distressed counties
- T3 counties (77%), Wake/Mecklenburg (60%)*
- Large non-NC corporations (93%)*
- Minimal realized employment gains

**2008-13 data*

Incentives' Limited Impact

Nine years of incentives (2007-2015)*

- 575 JDIG, OneNC, JMAC, IDF awards
- $1.3 Billion authorized ($119M actual)
- 27,809 realized jobs (3,000/yr.)
- 1% NC job growth = 50,000 jobs

*2015 NC Commerce JDIG Report

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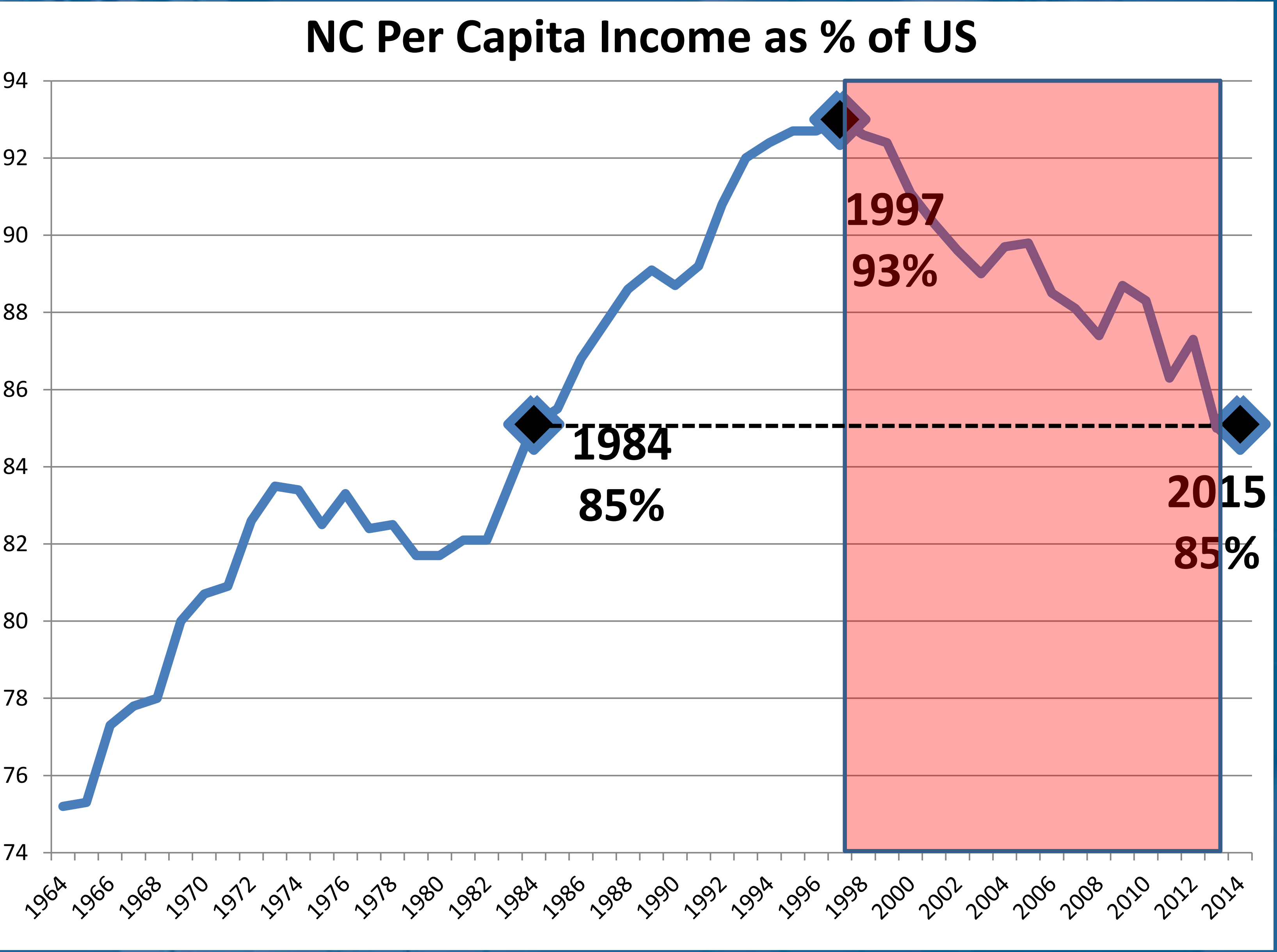
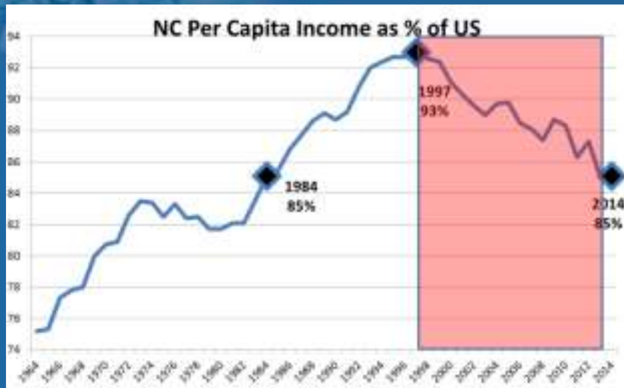
Economic Development Success?
North Carolina
"Best Business Climate"
15 of last 20 years

Site Selection's 2015 Top State Business Climate Rankings

Overall Ranking Rank		Executive Survey Rank	Competitiveness Rank	2014 New Plant Rank	2014 New Plant Rank Per Capita	2015 New Plant Rank (Jan. - Aug.)	2015 New Plant Rank Per Capita (Jan.- Aug.)	Mature Firm Tax Index Rank	New Firm Tax Index Rank	Final Total Points
1	Georgia	2	10	5	7	2	6	3	6	637
2	North Carolina	2	1	4	6	1	4	7	13	615
3	Kentucky	8	6	6	1	7	1	18	7	585
4	Louisiana	13	2	9	3	8	2	10	2	576
5	Ohio	11	9	2	2	5	12	5	3	573
6	Texas	1	3	1	14	18	41	12	42	553
7	Tennessee	6	5	10	9	10	10	29	29	531
8	Utah	9	17	28	19	30	26	6	10	528
9	Indiana	7	8	12	13	3	3	43	15	525
10	South Carolina	5	4	17	11	11	9	32	34	517

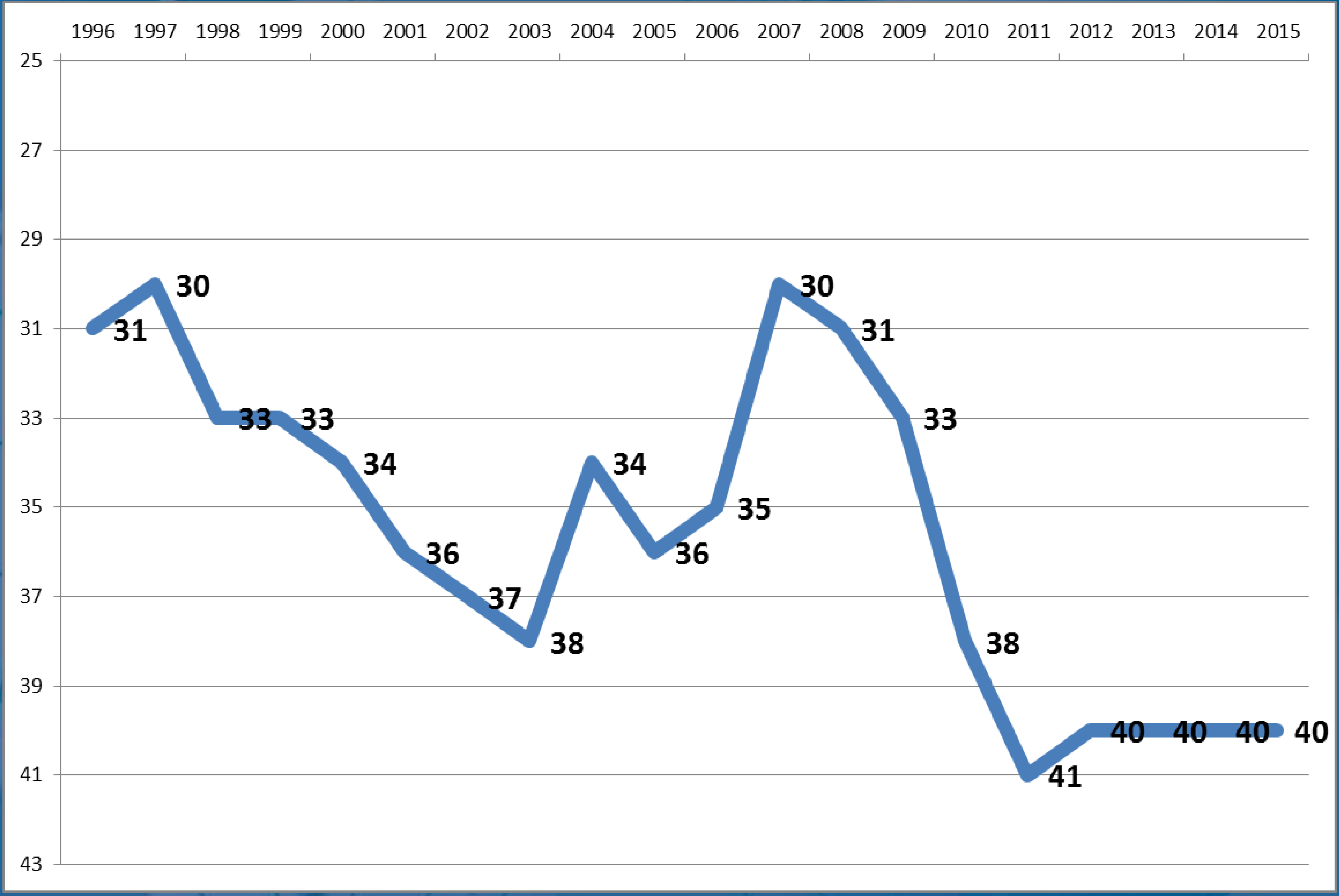

NC Per Capita Income as % of US
94
92
90
88
86
84
82
80
78
76
74
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
1984
85%
1997
93%
2015
85%



NC PCI Decline

- Decline from 93% of US (1997) to 84.7% (2014)
- Decrease of $30 Billion in annual income
- Down to 1984 level - 30 years of progress lost
- Recent improvements correlated to policy shifts
- 2016: NC up to 85.5% of US PCI

NC PCI Rank



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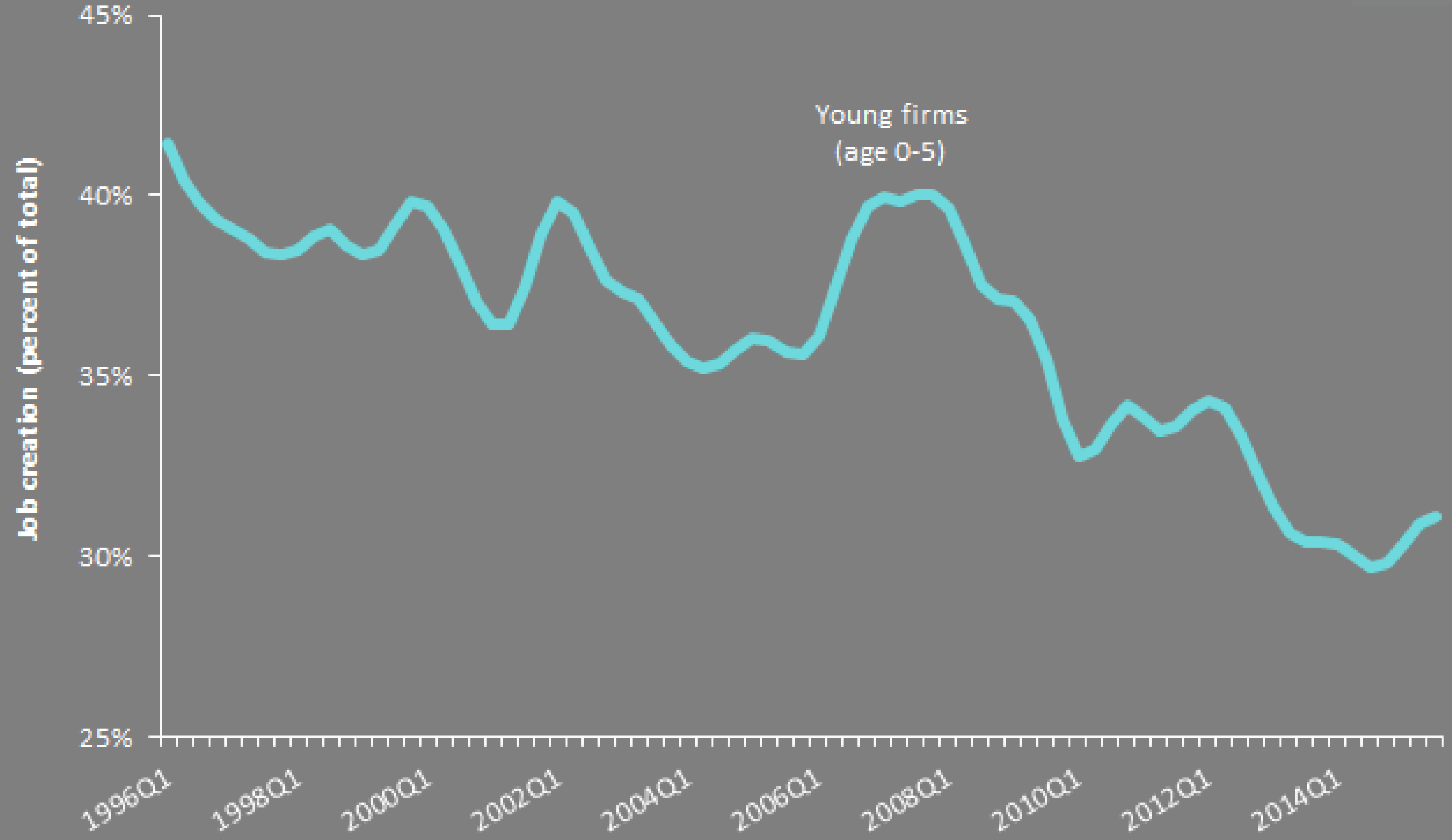
Young Firms See Their Share of Job Creation Decline

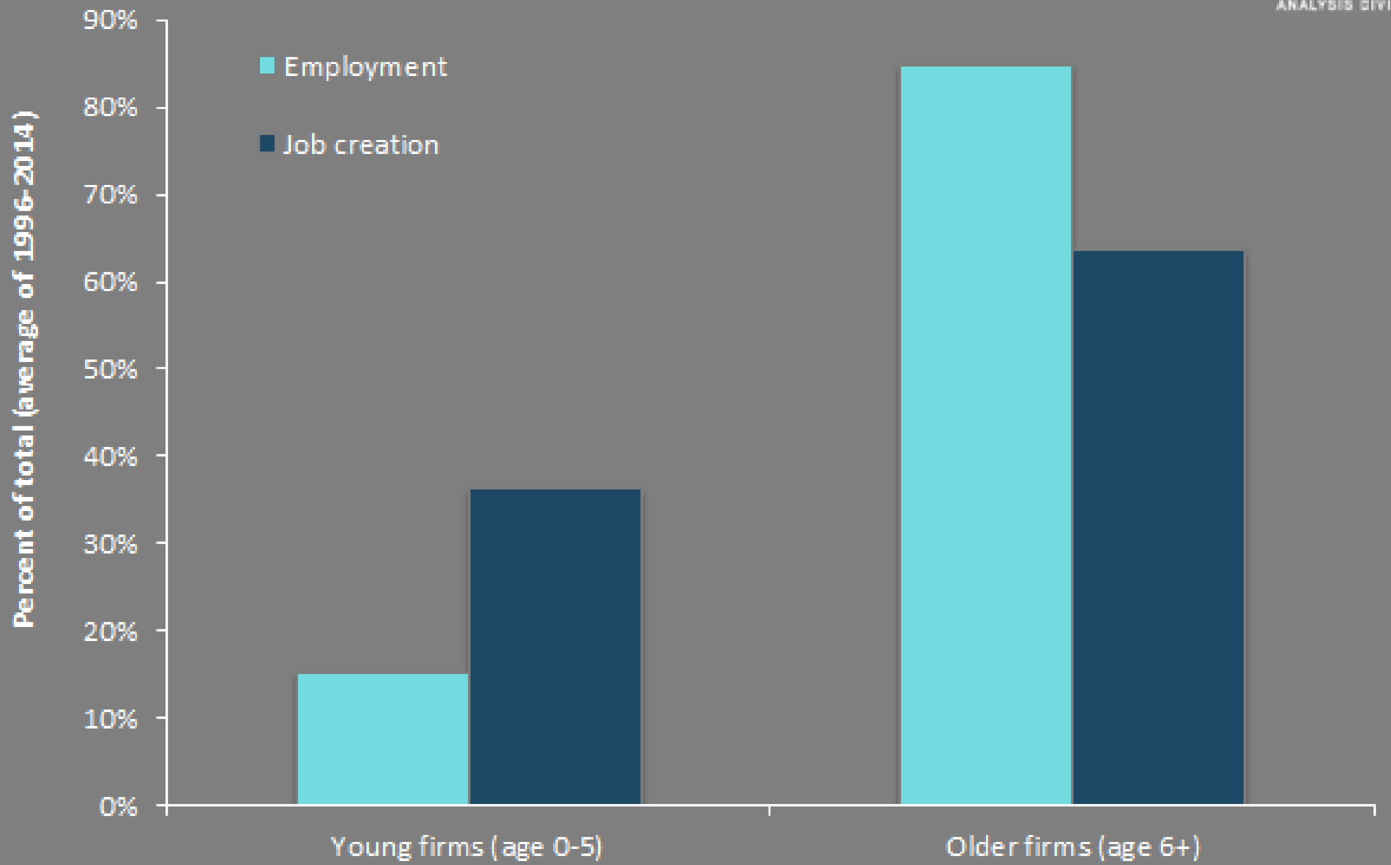
NC: Private sector employment and job creation



Source: Author's analysis of data from the Quarterly Census of Employment and Wages (QCEW).
Firm age is the number of years a firm has existed in North Carolina. Job creation is tallied as changes in employment between the third month of each quarter. Both firm growth and firm age are calculated in a manner that controls for changes in establishment ownership. Seasonally adjusted and smoothed using X-12-ARIMA.

Young Firms Create Jobs At Disproportionately High Rate

NC: Private sector employment and job creation, by firm type



Source: Author's analysis of data from the Quarterly Census of Employment and Wages (QCEW). Firm age is the number of years a firm has existed in North Carolina. Job creation is tallied as changes in employment between the third month of each quarter. Firm growth and firm age are calculated in a manner that controls for changes in establishment ownership.

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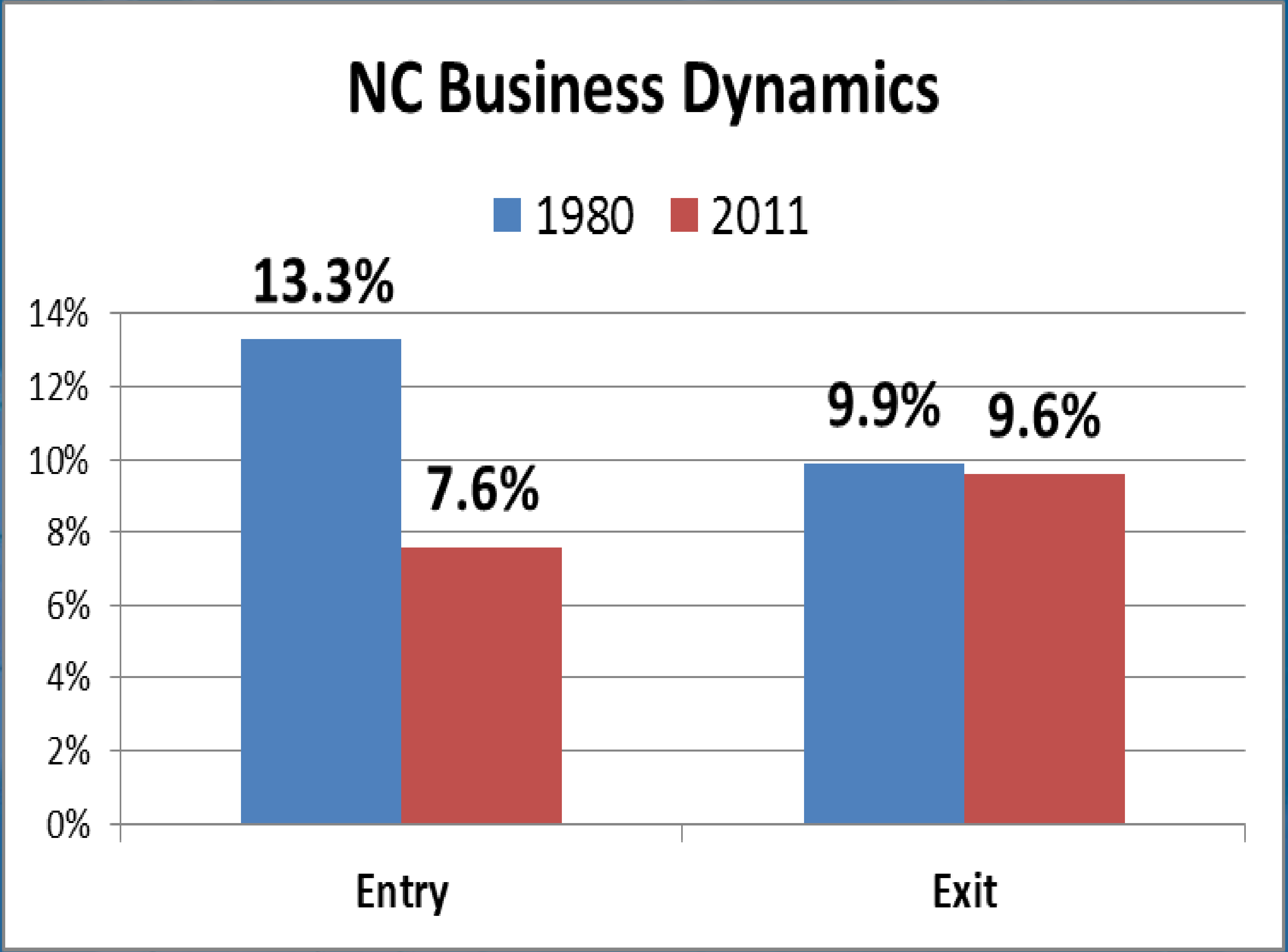
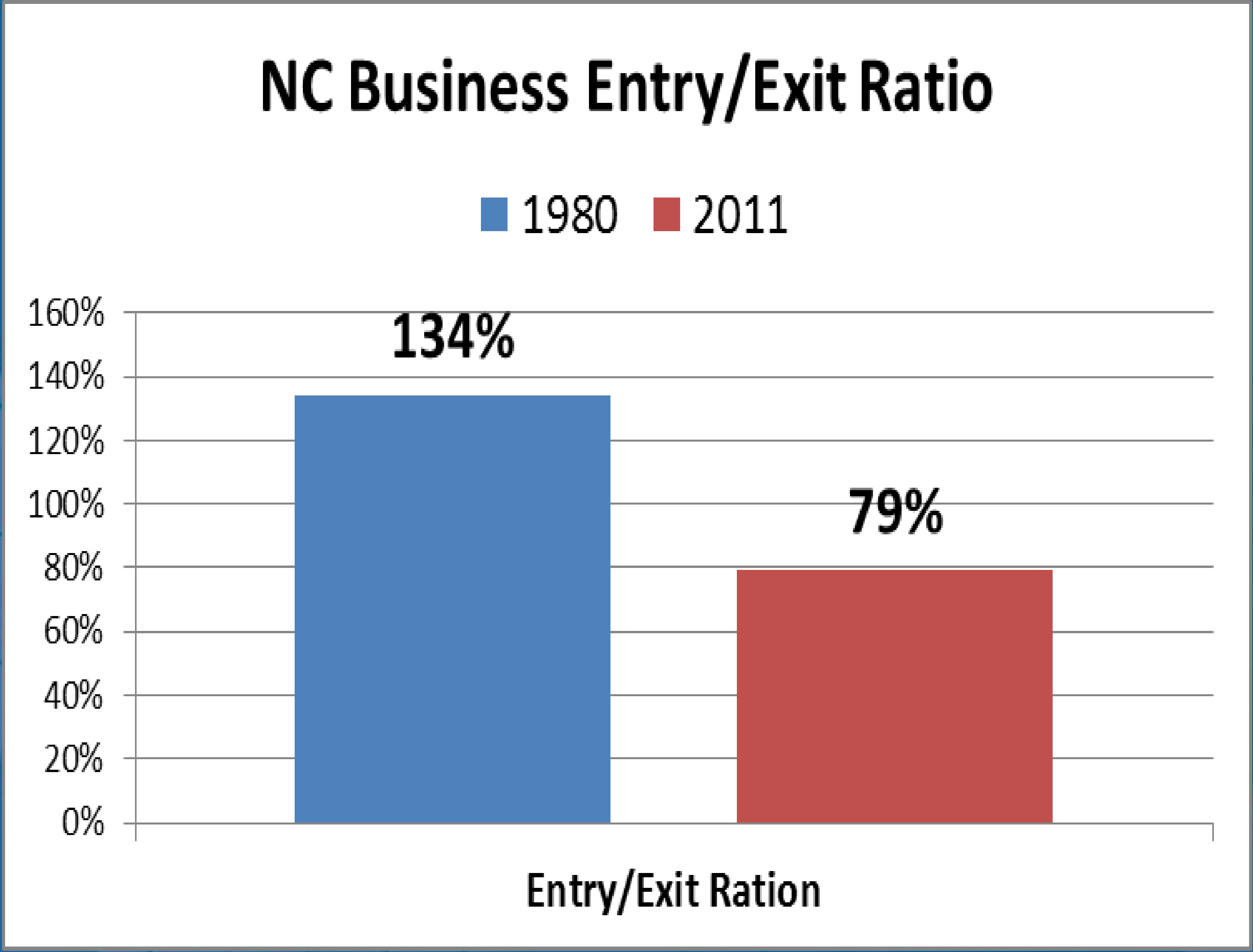

NC Business Dynamics
1980
2011
13.3%
7.6%
9.9%
9.6%
14%
12%
10%
8%
6%
4%
2%
0%
Entry
Exit


NC Business Entry/Exit Ratio
1980
2011
160%
140%
120%
100%
80%
60%
40%
20%
0%
134%
79%
Entry/Exit Ration

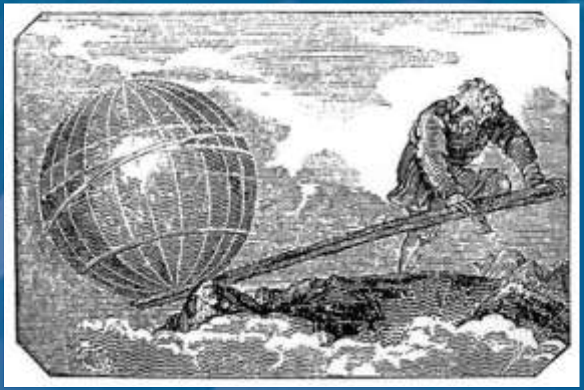
NCGA Systemic Improvements

Improved business climate for all reduces need for economic incentives for a few

- Corporate tax reduction from 6.9% (2013) to 3% in 2017
- Personal income tax reduced from max. 7.75% to flat 4.99%
- Lowered rate/broadened base of sales tax

Past 3 years has seen PCI growth in NC meet or exceed US (3.7%)

Limited Effects



At best, incentives can increase regional

- Income
- Employment
- Tax base

What are the goals for these gains?

Where are those gains a priority?

Workgroup Tasks

- Reconsider economic incentive tier structure
- Identify and quantify state and local level economic goals
- Develop policies to align economic development efforts with NCGA priorities
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Revised Tier Criteria

Retaining the tiers but redefined them based on:

- Tax base per capita
- Median household income
- Average annual unemployment rate

40 counties in Tiers 1 and 2; 20 counties in Tier 3

Eliminated population-based "adjustment factors"

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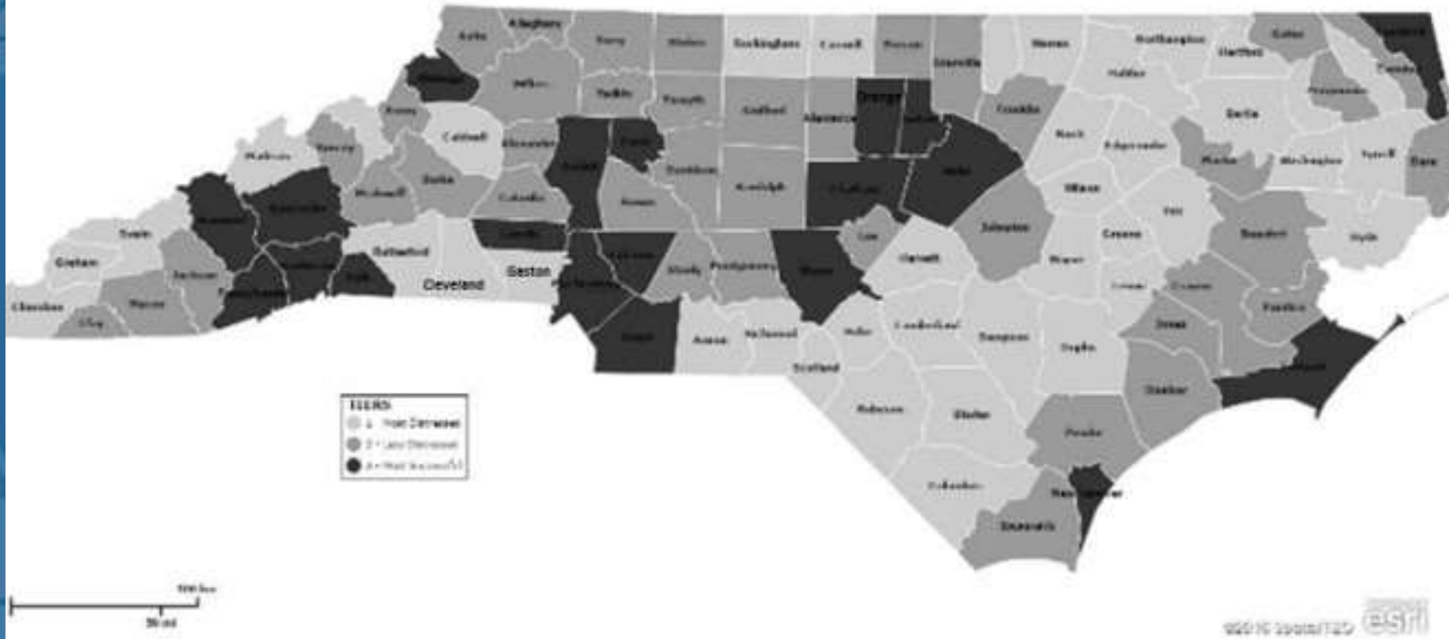

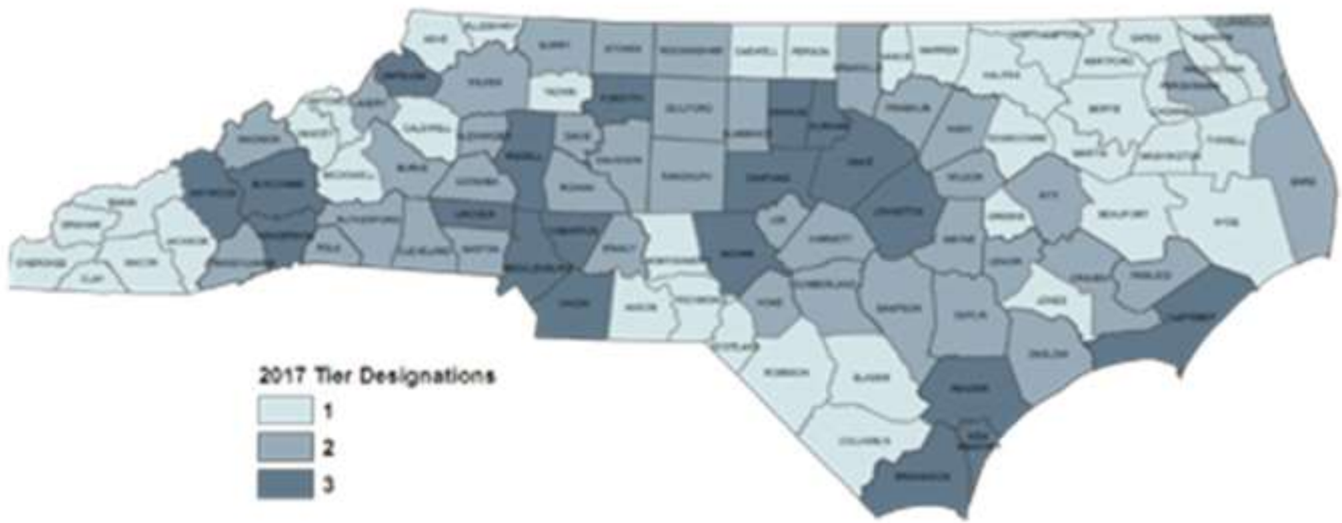

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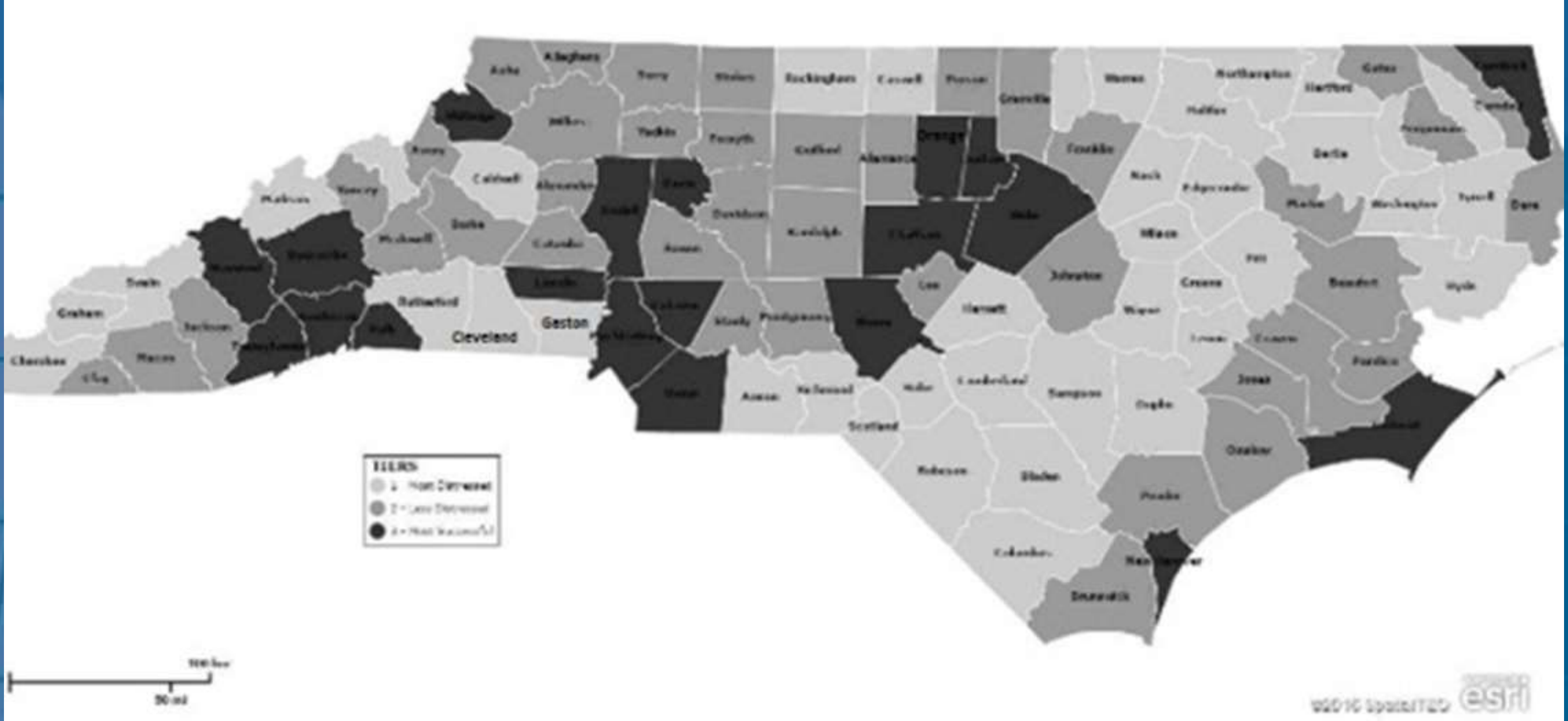
EDGE Tiers



Tier 1

Edgecombe
Robeson
Scotland
Vance
Bertie
Hertford
Halifax
Washington
Richmond
Columbus
Anson
Bladen
Northampton

Martin
Wayne
Sampson
Lenoir
Duplin
Wilson
Hoke
Rutherford
Tyrrell
Cumberland
Graham
Pitt
Swain
Warren

Greene
Harnett
Rockingham
Caswell
Chowan
Nash
Cherokee
Pasquotank
Cleveland
Caldwell
Gaston
Mitchell
Hyde

Tier 2

Wilkes
Onslow
Burke
Surry
Jones
Alleghany
Beaufort
Randolph
Lee
McDowell
Perquimans
Rowan

Montgomery
Alamance
Madison
Clay
Gates
Craven
Franklin
Yancey
Stanly
Yadkin
Alexander
Jackson
Davidson
Guilford

Person
Macon
Ashe
Pender
Avery
Stokes
Pamlico
Forsyth
Brunswick
Camden
Granville
Catawba
Dare
Johnston

Tier 3

Haywood
Transylvania
Davie
Lincoln
Moore
Watauga

Carteret
Cabarrus
Polk
Durham
Henderson
Iredell
Currituck

Mecklenburg
Union
New Hanover
Buncombe
Orange
Chatham
Wake

Specified Goals

Affirmed the economic development priority of distressed areas

1. **Income**: Increase NC and county incomes to cost-index adjusted US equivalents
2. **Employment**: Increase jobs reducing long term unemployment to state averages
3. **Tax base**: Increase county property tax base to NC per capita average

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Quantified 10 Year NC Goals

Income

- Add $30B in income to equal US PCI

Employment

- Add 500,000+ to maintain Goal UE

Tax Base

- Add $124 B to 2015 Tax Base of $1.0 Trillion

Healthy economy will provide most needs.
Economic development policy “fills holes”.

Quantified County Goals
ex. Bladen County

Income

- Goal PCI = $42,227 ($34,657)
- Target PCI Gain = $6,721 ($233 Million)

Employment

- Goal UE = 5.0% (8.1%)
- Target Gain = 574 jobs

Tax Base

- Goal NC avg. Per Capita Tax Base
- Target Gain = $733 million

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20 Most Distressed

1	Scotland	11	Anson
2	Robeson	11	Hoke
3	Edgecombe	13	Bladen
4	Vance	14	Rutherford
5	Bertie	15	Northampton
6	Hertford	16	Tyrrell
7	Halifax	17	Graham
7	Richmond	18	Harnett
9	Columbus	18	Madison
10	Washington	18	Swain

20 Most Distressed Goals

Income

- Add $7B in income to equal US PCI

Employment

- Add 8,359 to achieve 5% Goal UE

Tax Base

- Add $32 Billion to achieve NC average

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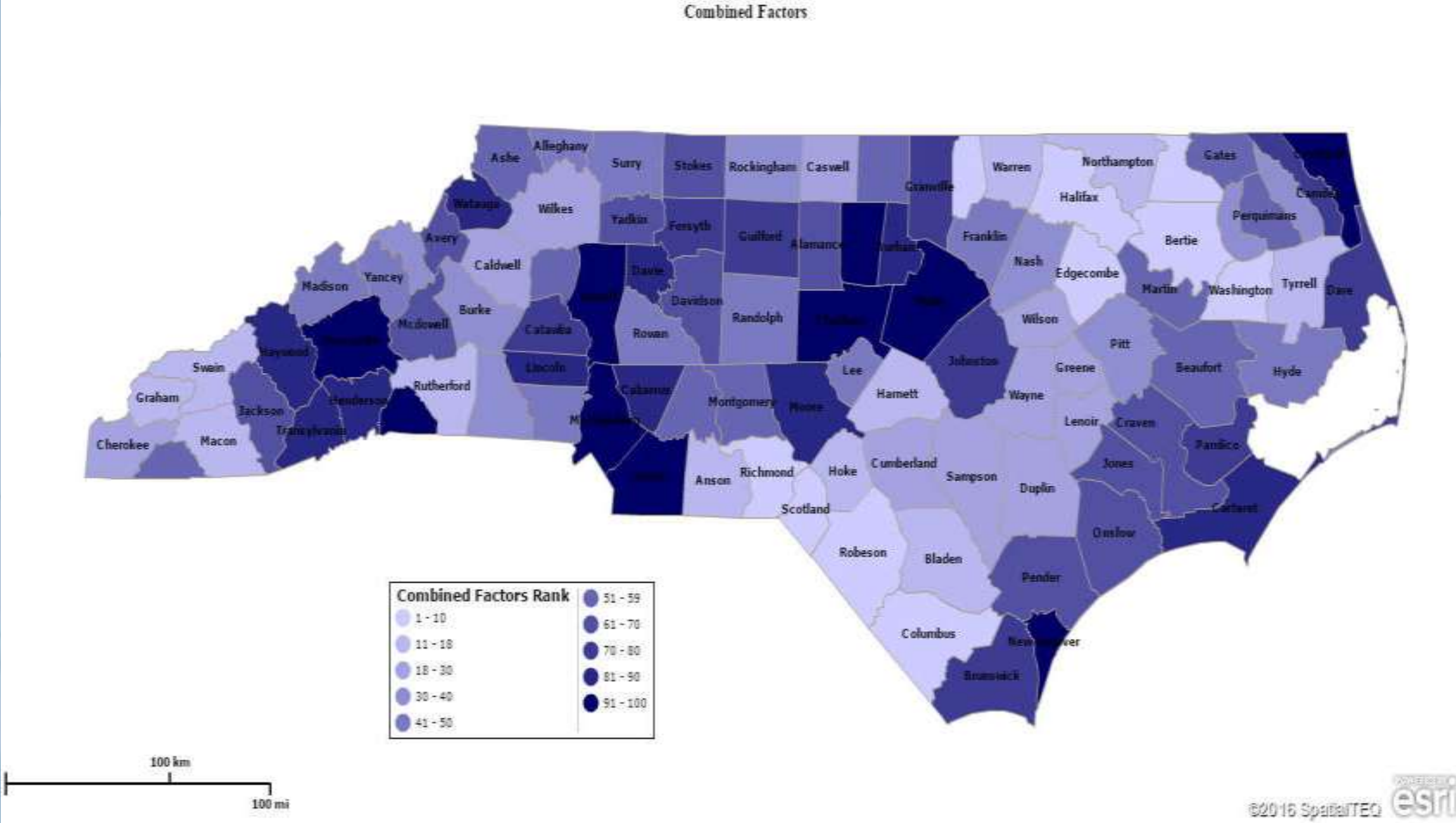
Goal Attainment



Meet Tax Base Goal (43)

Camden
Tyrrell
Swain
Madison
Montgomery
Cherokee
Mitchell
Lincoln
Warren
Person
Graham
Cabarrus
Perquimans
Pamlico
Alleghany

Clay
Hyde
Pender
Polk
Catawba
Beaufort
Yancey
Haywood
Ashe
Henderson
Durham
Chatham
Orange
Avery
Moore

Transylvania
Watauga
Currituck
Iredell
Macon
Jackson
Buncombe
Carteret
New Hanover
Dare
Brunswick
Mecklenburg
Wake

Meet Employment Goal (17)

Wake
Buncombe
Durham
Union
Orange
Henderson
Chatham
Cabarrus
Mecklenburg

Johnston
Granville
Alexander
Yadkin
Davie
Polk
Stanly
Lincoln

Meet Income Goal (9)

Orange
Chatham
Wake
Mecklenburg
Dare
Carteret
Moore
Onslow
Durham

Meet Income & Empl. Goals (5)

Orange

Chatham

Wake

Mecklenburg

Durham

Meet All Goals (5)

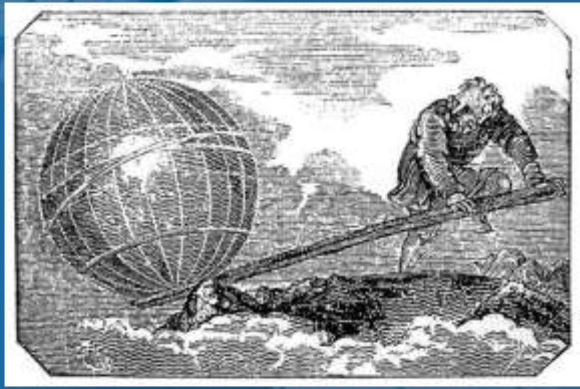
Orange

Chatham

Wake

Mecklenburg

Durham



Incentive Economic Impact Factors

- Headquarters/local ownership
- Value-added products for export
- Reliance on regional assets and local workforce
- High relative economic significance
- Necessity of incentive

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Best Case Incentive Deal

Established firm with growth position

- Low risk with ROI upside

Value added serving national/global market

- Imports profits into local economy

Regional inputs dependent

- Secondary growth and higher stability

Employs current local residents

- Maximum economic benefit w/minimum costs

Headquartered with local investors

- Wealth creation and absorption

Distressed county location maximizes impact

Relative Job Impact

1 job in Mecklenburg = ?

Tyrrell	198	Warren	75
Gates	147	Caswell	68
Camden	118	Alleghany	65
Jones	116	Yancey	58
Hyde	112	Mitchell	57
Graham	106	Chowan	56
Clay	104	Northampton	53
Perquimans	99	Madison	50
Washington	78	Swain	50
Pamlico	77	Pender	46

Findings

1. NC's incentives began to aid distressed areas but most incentives go to wealthy areas
2. Reliance on economic development "success" is inadequate to scale of NC economy
3. Systemic economic policies needed to enhance statewide economic climate
4. Improved competitiveness lessens importance of off-setting economic incentives
5. Incentives most significant in distressed areas

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Alignment Options

Make tier structure more effective in Tiers 1 and 2

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2. Reformulate JDIG evaluation to include goals for employment, income, tax base
3. Limit total JDIG awards to T3 counties (50%)
4. Reduce maximum amount of T3 JDIG awards
5. Limit EDP bonuses to projects located in T1&T2
6. Limit JDIG eligibility to resident, permanent workers

Alignment Options

Establish and oversee goals for T1&T2 outcomes

- Set 10 year goals w/annual performance evaluations
  - $3 billion in income growth
  - 50,000 new jobs
  - $12 billion in tax base growth
- EDGE review "Progress toward Goal" reports at the county, regional and state levels

Alignment Options

Reformulate JDIG evaluation to include goals for employment, income, tax base

- Current revenue-based model biased toward higher wage, larger scale projects favoring T3 locations
- Prioritize incentive awards on contribution to income, employment and tax base goals
- Increase NCGA involvement in Economic Investment Committee (EIC) in evaluating JDIG awards

Alignment Options

Shift more JDIG use from Tier 3 to Tiers 1 and 2

- Limit total JDIG awards to T3 counties to 50% (or less) of annual authorization
- Reduce current 75% to maximum amount of T3 JDIG awards to 50% (or less)
- Support NCEDP employment performance bonuses to results located in T1&T2
- Limit JDIG eligibility to resident, permanent workers

Discussion of Options

Make tier structure more effective in Tiers 1 and 2

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